



2021 Tax Tips from Fiscal Tax Co.

**The tax code is complicated and can change dramatically.
Please consult your tax professional for expert advice.**

1) Stimulus Checks

- Good News - it is not taxable income.
- Also, there is a way to get your missed Stimulus Payment when you file your 2021 tax return in 2022. It's called the **Recovery Rebate**. Ask us for details.

2) Indiana Taxpayers Only

- Do you know anyone (including Grandparents) that are saving or paying for College Expenses or Private School K-12 Tuition? Contribute to the **Indiana College Choice Direct Savings Plan** and increase your Indiana refund by as much as **\$1,000** each year. Ask us for details.
- Don't forget, Indiana allows you to deduct the first **\$3,000** you paid in rent and the first **\$2,500** of property taxes.

3) Charitable Contribution Deduction

There is a charitable contribution of \$300 for single taxpayers and \$600 for joint returns. You can write off these cash donations even if you do not itemize deductions.

4) Unemployment Benefits

The bad news: you could owe Federal, State and Local taxes on any unemployment benefits you collected.

5) Standard Deduction vs. Itemized Deductions

- Itemized deductions must exceed the standard deductions of \$25,100 for Joint returns, \$18,800 for Head of Household, and \$12,550 for Single taxpayers.
- You might benefit from itemizing if you had large, out-of-pocket medical expenses, paid mortgage and real estate taxes on your home.

6) ROTH vs. Traditional IRA: Which is Better for You?

ROTH IRAs tend to get a lot of hype, and for good reason, because you pay the taxes upfront and your eventual withdrawals are completely tax-free.

Traditional IRAs give you a tax break now and, in many situations, will put more money in your pocket than a ROTH would.

The tradeoff is an uncertain future tax liability possibly even decades from now. Given enough time and/or a high rate of return, you may be better off with a ROTH.

7) Childcare Expenses - Get a Bigger Tax Credit

- Qualifying expenses increased from \$3,000 to \$8,000 per child.
- 50% of expenses are eligible for credit or added refund up to \$4,000.
- Credit is now fully refundable even if you don't owe taxes.
- Income phase-out for credit is increased from \$15,000 to \$125,000.
- Maximum amount allowed for flex spending account or employer provided benefits is increased from \$5,000 to \$10,500.

8) Child Tax Credit

- The child tax credit is **\$3,000** per child over the age of five and under the age of 18, and **\$3,600** for children five and under. These tax credits are reduced by any Advanced Child Tax Credit you received.
- There is also a **\$500** tax credit for dependent children over age 17 and all other dependents.

9) Earned Income Credit (EIC)

The Earned Income Credit was passed in 1975 in an effort to reduce poverty and assist those who work to provide for their families but earn lower income levels. The credit decreases the amount of tax you owe and the credit is refundable. The maximum amount for 2021 is:

- **\$6,728** with three children - **\$5,980** for two
- **\$3,618** for one child - **\$1,502** for no children
- Also, the Indiana maximum credit is **\$575**

10) Education Credits

The American Opportunity Credit can increase your refund by up to **\$2,500** per student. Also, you could qualify for a **\$1,000** refund even if you had zero income, but you cannot claim it if you could be a dependent of your parents. The tax break is allowed the year you pay the tuition even if you used a student loan to pay for it. Form 1098T is required.

11) Student Loans

- The deduction for Student Loan Interest can ease the burden of payments for student loans. If you pay interest on a qualified Student Loan, you are generally able to deduct the interest expense up to **\$2,500**.
- Discharged loans are generally treated as added income. However, there are now exclusions for: Death, Permanent Disability, and working for a certain period of time in specific professions.

12) Need a Copy of Your Tax Return?

The Internal Revenue Service charges \$50 for a complete copy of your tax return. However, Fiscal Tax retains our client returns for 10 years and we are available year-round to provide **FREE** copies whenever you should need them.

13) Teachers

There is a **\$250** deduction for teachers using their own money to pay for classroom supplies.

14) Make the RMD from Your Traditional IRA Tax-Free

- The tax code allows you to donate directly from your IRA account up to **\$100,000** per year in **Qualified Charitable Distributions (QCDs)**.
- The QCD donated money escapes Federal income taxes and will also lower your Indiana and county taxes by over 5% of the contributed amount.
- **Double-Dip.** You get a double-dip when you don't itemize deductions. The non-itemizing taxpayer creates a deduction where none existed before.
- Other benefits may include: Lower Medicare premiums and lower tax on your Social Security benefits.

15) Business Deductions for Sole Proprietorship, S Corporations, Partnerships and, Rental Income

- Qualified Business Deduction (QBD). Generally you can deduct 20% of profit from your income.
- Standard Mileage Rates. The 2021 rate for business use of your vehicle is **56¢** a mile for the entire year. It's extremely important to have a mileage log or all deductions could be disallowed.
- No Entertainment expenses are deductible for 2021.
- Business meals and Client Prospect Meals are **100%** deductible for 2021. The expense must be ordinary and necessary. You must keep track of your business meals all year long so you have the proof you need for the deduction. Keep the receipt that shows the name of the restaurant, the name of the people at the table and a record of the reason for the meal.